

SERVICED OFFICES

Flexibility and little or no start-up costs are making serviced offices popular with start-up firms, foreign companies venturing to India and satellite projects

SUBHANKAR PAUL

CONCERNS over cost reduction and a cautious approach by occupiers had a negative impact on leasing activity across key markets in India. But serviced offices – relatively a new concept in India – are re-emerging rapidly after a shaky debut a few years ago. Most suited for start-ups, foreign companies venturing to India, professional consultants, companies setting up satellite offices or temporary offices, the concept is catching up fast in tier-I and tier-II cities.

The established players in India such as DBS Business Centre and Apeejay Business Centre are trying to re-establish the concept. Other leading names such as Regus, The Executive Centre, ServeCorp, Stylus, New Bridge Centre and Vatika Business Centre are catching up with the trend.

Year 2012 saw a one-fourth decline in absorption of prime office space, with major companies continuing to review expansion plans and focusing on improving existing space utilisation to control costs. According to CBRE's latest report on prime office space – India Office Market View Q4, 2012 – the total absorption of prime office space for 2012 was around 26 million sq ft over 35 million sq ft witnessed in 2011.

Neeraj Bansal, director, KPMG India, believes companies these days want to go for asset light model. "Post global financial crisis in 2008, the occupiers prefer to have an asset light model and do not prefer to block capital in the property. Most companies today prefer to take office spaces on rent instead of purchasing."

Serviced offices are popular with larger firms that require a satellite office. This format allows a number of benefits for a company. Flexibility is one of the key benefits of a serviced office, represented by straight forward licence that does not require the expense of a solicitor. Financially, one of the main benefits of a serviced office is that there are little or no start-up costs, as there is usually a low deposit and most offices are ready to 'plug and play'. This also means very little downtime for the company moving into the space. Other benefits include the support network available, including management staff, receptionists, admin assistance, and in some cases, even an on-site IT support team.

According to Santhosh Kumar, CEO – operations, Jones Lang LaSalle India, serviced office spaces, which are shared by several

companies, make sense for firms that are just setting up business and also established companies exploring cautious expansion into new territories. "They are an excellent way of managing investment risk while offering cost-effective and flexible solutions to start-ups, companies looking to expand cautiously, companies that require off-site office spaces and also businesses with no long-term plans. In the serviced office space model, the company basically pays only for what it really needs."

Shared and centrally-managed IT infrastructure, secretarial services and conference facilities can result in significant cost reduction. "Serviced office spaces do not offer scope for customisation and more visible company branding, as leased or owned office spaces do. Also, they obviously do not count as a company's assets," he adds.

Will the passage of the land acquisition bill make any perceptible change in the serviced offices sector?

Balbir Singh Khalsa, national director (office and industrial agency), Knight Frank India, doesn't believe so. "It is a good option for those who are in entry stage or initial project stage, those working with limited staff, or those who want instant ready-to-use offices. Some companies may use this option while expanding and may take space in serviced offices/business centres as a temporary solution."

Globally, commercial segment is more mature compared with India and, hence, these services are more in demand. With India catching up with global peers, these services are now finding many takers even here, as more and more international companies want to establish themselves in India. Many Indian and international companies and noted Indian developers today have entered this field as demand is on the rise.

Apeejay Surrendra Group, a major player in the sector, has seen ups and downs in the serviced office category. "There is more demand in international markets because of its awareness. Despite setbacks at frequent intervals and the present recession, the serviced office industry managed to survive and grow with the increasing demand for office space. But current economic conditions are again proving to be a challenge. Landlords are using the serviced office model as a device to harbour their own space until a large renter is identified,"

"POST global financial crisis in 2008, occupiers prefer to have an asset light model and do not prefer to block capital in property"

Neeraj Bansal
director, KPMG India

says a group spokesperson.

Bansal from KPMG also supports the view. "Unlike India, the global serviced office industry is comparatively organised. At the end of 2011, there was around 80 million sq ft of serviced office space globally with a seating capacity of 750,000 workstations. Regus is the world's largest serviced office space provider and commands a market share of 20 per cent. Around 36 per cent of the global serviced offices are in the UK and London alone accounts for 8 per cent of the global market share. In contrast, the serviced office industry is at a very niche level in India, and only a couple of cities such as Delhi-NCR and Mumbai have few serviced offices," he adds.

The growing demand for serviced office space and equally with the growing competition among business centres at the respective regional locations, apart from the top players,

has made it easy for companies to choose their serviced office at competitive price from a set of individual office to a larger suite of offices.

Madhusudan Thakur, regional vice-president, South Asia, Regus, says, "At a time when the real estate sector is slowing down, mainly due to high interest rates and unfavourable government policies, the serviced sector is expected to revive demand for office space. The services sector comprises banking, financial services and insurance (BFSI), information technology, consulting, trade and communication. The absorption is likely to be stable in short- and medium-term, mainly on the back of favourable office market conditions for the corporate world as there is a sizable availability of ready or near-ready supply."

For Regus, India is one of the key growth markets, as both domestic companies and international customers are waking up to the benefits of working flexible. "Five years ago, we had five or six centres in India. Today, we have 32 centres across 10 cities. We can clearly foresee flexible working as an increasing norm in India because of its unique demographic structure, its younger workforce and its dominating presence in service-oriented economy. Most non-manufacturing units are likely to move towards mobile office or a convenient place, where employees have to commute lesser and flexibility in terms of working hours, especially in the given state of infrastructure," Thakur says.

Servcorp, an Australian multinational that is one of the pioneers in the field of serviced virtual offices sector, has its presence in the country with a joint venture, Imperial Servcorp with one of the leading real estate and retail company K Raheja. It has built state-of-the-art

business centres in prime business districts of Mumbai and Hyderabad and follows the 'pay-for-what-you-use' package.

Meenal Sinha, country head, Imperial Servcorp, believes the Indian market is still nascent. "There is, of course, a need for greater awareness. Not only smaller companies, but MNCs and large companies are also expanding their footprint through this route. Considering the Indian entrepreneurship potential, serviced and virtual offices are a great opportunity area. It is, however, a new product in India vis-a-vis international markets, where the presence has been for decades."

Imperial Servcorp has brought about a positive outlook towards unbranded serviced offices in the country. "Internationally, the market for business centres is quite developed. India, with its fast paced economic growth and investments, has become a major hub for all kinds of businesses. This opens up the opportunities for the serviced offices industry and we believe the market in India holds great potential."

The future is certainly bright as the serviced offices are fully furnished and ready-to-use. One can start an office space in as little as 24 hours.

"They do not require heavy investments against the conventional leased office space, nor do they involve lengthy legal procedures. These offices are beneficial, especially to entrepreneurs, start-up companies, SMEs and even MNCs starting with small teams, as they do not need to make long-term commitments. They also allow them to add a prestigious office address on their business cards and letterheads," Sinha adds.